

VZCZCXYZ0030
RR RUEHWEB

DE RUEHFR #5024/01 2061238
ZNR UUUUU ZZH
R 251238Z JUL 06
FM AMEMBASSY PARIS
TO RUEHC/SECSTATE WASHDC 9765
INFO RUEATRS/DEPARTMENT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHDC
RUEHRL/AMEMBASSY BERLIN 6230
RUEHSW/AMEMBASSY BERN 1795
RUEHBR/AMEMBASSY BRASILIA 1642
RUEHBS/AMEMBASSY BRUSSELS 5789
RUEHBY/AMEMBASSY CANBERRA 1618
RUEHCP/AMEMBASSY COPENHAGEN 1361
RUEHHE/AMEMBASSY HELSINKI 1197
RUEHLO/AMEMBASSY LONDON 6185
RUEHMD/AMEMBASSY MADRID 2375
RUEHMO/AMEMBASSY MOSCOW 5494
RUEHNY/AMEMBASSY OSLO 1394
RUEHOT/AMEMBASSY OTTAWA 1948
RUEHRO/AMEMBASSY ROME 7842
RUEHUL/AMEMBASSY SEOUL 1315
RUEHSM/AMEMBASSY STOCKHOLM 1410
RUEHTC/AMEMBASSY THE HAGUE 2544
RUEHKO/AMEMBASSY TOKYO 2317
RUEHVI/AMEMBASSY VIENNA 1587
RUEHBS/USEU BRUSSELS 1698
RUEHBUL/AMEMBASSY KABUL 0378
RUEHAS/AMEMBASSY ALGIERS 0788
RUEHLU/AMEMBASSY LUANDA 0759
RUEHBU/AMEMBASSY BUENOS AIRES 1278
RUEHKI/AMEMBASSY KINSHASA 1390
RUEHSI/AMEMBASSY TBILISI 0374
RUEHGE/AMEMBASSY GEORGETOWN 0147
RUEHGB/AMEMBASSY BAGHDAD 0493
RUEHLG/AMEMBASSY LILONGWE 0493
RUEHMU/AMEMBASSY MANAGUA 0264
RUEHBW/AMEMBASSY BELGRADE 0682
RUEHPL/AMEMBASSY PORT LOUIS 0775
RUEHSB/AMEMBASSY HARARE 0402

UNCLAS PARIS 005024

SIPDIS

SENSITIVE
SIPDIS

STATE FOR EB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK
PASS USAID FOR CLAIMS
PASS DOD FOR DSCS -- PBERG
BELGRADE PASS TO PODGORICA

E.O. 12958: N/A
TAGS: [EFIN](#) [ECON](#) [EAID](#) [XM](#) [XA](#) [XH](#) [XB](#) [XF](#) [FR](#)
SUBJECT: PARIS CLUB - JULY 2006 TOUR D'HORIZON AND AFGHAN DEBT
NEGOTIATION

SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION

SUMMARY

1. (SBU) At the July 18-19 meeting of the Paris Club, creditors agreed on exceptionally generous debt relief for Afghanistan, which achieved three main objectives: (1) 92% of Afghanistan's debt stock will be canceled immediately; (2) all interest falling due between now and the end of the IMF program will be deferred; and (3) all three creditors reiterated their commitment to forgive 100% of the debt once Afghanistan completes the Heavily Indebted Poor Countries (HIPC) process. The secretariat reported that Angolan Finance

Minister de Moraes told Paris Club Chairman Musca that Angola is seriously considering a precautionary Stand-By Arrangement with the IMF, presumably as a means to obtain debt relief from the Paris Club. Angola owes the Paris Club \$4.5 billion, of which \$4.1 billion is in arrears, and is eager for new financing. Spain and Japan reported that Argentina plans to approach the Paris Club as early as September with a proposal for normalizing relations. Other countries on the agenda included Algeria, Brazil, Democratic Republic of the Congo (DRC), Georgia, Guyana, Iraq, Malawi, Nicaragua, Serbia and Montenegro, Seychelles, and Zimbabwe.

AFGHANISTAN

¶2. (SBU) Creditors agreed to a treatment that reduces Afghanistan's debt from \$11.3 billion to \$800 million - a level of cancellation in excess of 92%.

- Russian claims, amounting to \$11.2 billion, are subject to an immediate 80% write-off consistent with the MOU on Russia's accession to the Paris Club.
- All remaining debt is treated under standard Naples flow terms.
- All interest accruing during the period of the IMF's Poverty Reduction and Growth Facility (PRGF) is capitalized and repaid over a six-year period beginning in 2011. Interest on capitalized interest is also deferred until 2011.
- A symbolic cutoff date of June 1999 was chosen to highlight Afghanistan's anticipated HIPC status.
- The Agreed Minute contains a goodwill clause stating creditors' commitment to top up to Cologne terms at decision point and to provide additional debt relief at completion point.
- In the press release, creditors reiterated their commitment to

forgive 100% of the debt once Afghanistan completes the HIPC process. Unlike at the London Conference, Russia did not insist on language tying debt relief to investment opportunities.

¶3. (SBU) Earlier in the week, Afghanistan signed a long-awaited debt reconciliation agreement with Russia, clearing the way for negotiations to proceed. The reconciliation agreement covered all claims in the clearing account held between Vnesheconombank and the Afghan central bank, resulting in a slight upward revision to the total debt owed to Russia. The Afghan delegation, led by Vice Finance Minister Mujib, did not dispute the numbers.

¶4. (SBU) The negotiations the following day were not nearly as contentious or protracted as had been anticipated, largely thanks to the behavior of the Russian delegation. For the most part, the Russians were uncharacteristically flexible and cooperative - at times even suggesting useful ways to address Afghan concerns. The secretariat, for its part, was exceptionally helpful throughout the

SIPDIS
process. Most importantly, the secretariat made the case for capitalizing all interest payments during the three-year PRGF period, including interest on capitalized interest. Moreover, the secretariat's repayment scheme gives Afghanistan an additional two

SIPDIS
years to reach completion point before capitalized interest falls begins to fall due.

¶5. (SBU) The IMF was not as helpful as hoped on the issue of Afghanistan's HIPC eligibility. The Fund said Afghanistan's HIPC eligibility was possible, but would not go so far as to say that eligibility was probable based on preliminary estimates. The mission chief admitted privately that Afghanistan's export numbers stand to increase once the IMF includes non-factor services, which risks bringing the external debt-to-exports ratio close to the HIPC threshold.

¶6. (SBU) Afghan Finance Minister Ahady seemed delighted by the outcome and personally thanked the U.S. delegation for its assistance. It is important that the Afghans now perform on their PRGF. While it is impossible to say with certainty whether Russia will deliver 100% cancellation at completion point without conditions, at this stage it appears to be acting in good faith.

ALGERIA

¶17. (U) Creditors reported on the status of Algeria's prepayment operation. Italy and Switzerland continue to work with the Algerian authorities to complete the transaction. All other participating creditors have received their prepayment.

ANGOLA

¶18. (SBU) The secretariat reported on Paris Club Chairman Xavier Musca's July 13 meeting with the Angolan authorities. Angolan Finance Minister de Moraes told Musca that Angola is seriously considering a precautionary Stand-By Arrangement (SBA) with the IMF, and that he simply needs the approval of President dos Santos before formally applying to the Fund. The IMF confirmed that a mission had visited Luanda to discuss the modalities of a possible SBA, but said negotiations had not yet begun. Musca urged de Moraes to send a letter to the Paris Club by the end of the month clarifying Angola's intentions and committing to resume debt service in full. Musca did not, however, deliver the three-pronged message agreed by creditors in May. (That message consisted of the following elements: (1) creditors urge Angola to resume payments and to commit to clear arrears; (2) creditors encourage Angola to pursue an IMF program; and (3) a resumption of payments by Angola could lead some creditors to reopen credit lines. The message suggests that arrears clearance could take place over a period of three to six years.)

¶19. (SBU) Spain, supported by Italy, the Netherlands, Denmark, and Sweden, protested that Musca should have delivered the three-pronged message - especially the first point regarding arrears clearance and the resumption of debt service - while at the same time expressing support for an IMF program and an eventual Paris Club treatment. The secretariat responded that delivering the message agreed in May would have had the unwanted effect of convincing Angola not to pursue an IMF program since the message could be interpreted as conveying creditors' acceptance of a de facto rescheduling of arrears without an IMF program. In the end, creditors agreed not to take any action until Club's next meeting in September, by which time Angola should have clarified its intentions with respect to the IMF. If an IMF program does not appear likely, creditors will revert to the strategy developed in May.

ARGENTINA

¶10. (U) Creditors reported on their bilateral contacts with the Argentine authorities. Spain said President Kirchner, during a recent visit to Madrid, expressed Argentina's willingness to approach the Paris Club in the fall, but did not indicate what sort of debt treatment it would seek. Spain denied press reports that Kirchner had vowed to repay the \$835 million Spanish loan disbursed during the 2001 financial crisis. Spain said it merely reiterated its position - already well known to Kirchner - that it cannot support a Paris Club treatment that includes this loan. (The secretariat indicated that the loan should be included, but accorded

SIPDIS senior status because it was issued after the cutoff date for any rescheduling.) The UK said it met with an Argentine finance ministry official based in London. Contrary to what Kirchner told the Spanish, this official gave the impression that Argentina would not address its Paris Club debt until 2007. Japan, on the other hand, said Finance Secretary MacLaughlin told Japanese embassy officials in Buenos Aires that Argentina planned to make a proposal to the Paris Club in September but would not ask for debt reduction. MacLaughlin added that Argentina would reach out bilaterally to Germany, Japan, the Netherlands, and the U.S.

BRAZIL

¶11. (U) Creditors reported on the status of Brazil's prepayment operation. Germany and Italy said arrears were still outstanding. While Germany was optimistic that the issue would be settled soon,

Italy said legal action could not be excluded. The Netherlands and Canada said their arrears had been cleared since last month. All other participating creditors have received their prepayment.

DEMOCRATIC REPUBLIC OF CONGO

¶12. (U) The secretariat took stock of creditors' policies for invoicing the DRC now that interim HIPC relief has been suspended. Most creditors are not invoicing for payments coming due and do not expect to receive any payments. A few creditors (Canada, France, Japan, US) are legally obligated to invoice, but have not received any payments.

GEORGIA

¶13. (U) The vice finance minister of Kazakhstan has sent a letter to the Paris Club disputing the terms of a debt restructuring sought by Georgia. (Georgia received a Paris Club rescheduling on Houston terms in July 2004. Under the terms of this agreement, Georgia must seek comparable treatment from its non-Paris Club creditors, including Kazakhstan.) Georgia maintains that late interest should not accrue after July 2004. Kazakhstan, on the other hand, believes that any debt restructuring on Paris Club-comparable terms should include late interest up to the date of the restructuring. The secretariat will contact both parties to try to resolve the dispute.

SIPDIS

The secretariat will emphasize that it is not the Paris Club's role to dictate whether Kazakhstan has the right to charge late interest, but that the club will judge comparable treatment based on the usual three criteria (i.e., duration, net present value, and flow relief).

GUYANA

¶14. (U) The government of Guyana has sent a letter to the secretariat stating its intention to conclude a debt settlement with

SIPDIS

one of its non-Paris Club creditors on terms that are not consistent with the club's comparability of treatment requirement. The creditor in question - Citizens Bank - is Guyana's fourth largest commercial bank. The government argues that if it forced Citizens Bank to accept a settlement on Paris Club-comparable terms, the bank would go bankrupt, which in turn would pose a systemic risk to the domestic financial system. The secretariat said it would seek more information from the Guyana authorities before recommending a course of action to Paris Club creditors. The secretariat suggested (and the USDEL agreed) that Paris Club creditors may wish to consider some flexibility in the assessment of comparable treatment when the disadvantages outweigh the advantages.

¶15. (U) In 1992, the government of Guyana assumed the liabilities of Guyana Mining Enterprise Limited (Guymine). At the time, Guymine's debt was owed to external creditors. In December 2003, Guyana reached HIPC completion point, and the following month, received completion point treatment in the Paris Club. In the Agreed Minute, Guyana committed to restructure its non-Paris Club external debt - including the ex-Guymine debt - on Paris Club-comparable terms. The government now argues out that the ex-Guymine debt, which was converted to bonds in 1994, is no longer owed to external creditors and therefore should no longer be subject to comparable treatment. Of the \$27 million in ex-Guymine debt outstanding, 98% is owed to Citizen Bank.

IRAQ

¶16. (U) Russia said it hopes to sign its bilateral agreement with Iraq in Moscow next week. Russia is the only Paris Club creditor that has yet to conclude a bilateral agreement with Iraq implementing the 2004 Paris Club Agreed Minute.

MALAWI

¶17. (U) The IMF said HIPC completion point could come to the executive board at the end of August if prior actions are completed. Completion point negotiations in the Paris Club could take place in the fall. The U.S. does not have any claims.

NICARAGUA

¶18. (U) Creditors discussed Nicaragua's difficulties in obtaining comparable treatment from Libya. Nicaragua is seeking 91% cancellation, consistent with its January 2004 HIPC completion point treatment in the Paris Club, whereas Libya is offering to cancel 67% of its claims and is threatening litigation to recover the balance. In order to assist Nicaragua, creditors agreed that the secretariat should contact the Libyan authorities in Paris to discuss the situation and follow-up the discussions with a letter to the Libyan government, if appropriate.

SERBIA / MONTENEGRO

¶19. (U) The secretariat noted that Serbia had reached a debt allocation agreement with Montenegro. The secretariat will produce a working paper that discusses how the agreement will impact Paris Club creditors' existing bilateral contracts with Serbia.

¶20. (SBU) The secretariat also briefed creditors on the process by which Serbia intends to allocate a portion of its debts to Kosovo. The secretariat said Serbia is planning to contact Paris Club creditors individually to request documentation to help the authorities identify the final beneficiary of loans extended to Serbia. Kosovo may make a similar request. Some creditors (Germany, Netherlands) said they were reluctant to provide any information until Kosovo's final status has been determined. The secretariat responded that a simple request for loan documentation

SIPDIS

was not unreasonable, and that, moreover, the United Nations is overseeing the overall process. The U.S., France, and the Netherlands cautioned against making any prior commitments to treat Kosovo's debt in the Paris Club so as to avoid creating the perverse incentive for Serbia to unload as much debt as possible.

SEYCHELLES

¶21. (U) At the request of the UK, the secretariat will draft a letter to the Seychellois authorities calling on them to normalize relations with the Paris Club. The letter will be sent after the country's presidential elections later this month. (The U.S. is not a creditor.)

ZIMBABWE

¶22. (U) At the request of the US, the secretariat will send a letter to the Zimbabwean authorities calling on them to clear arrears to the Paris Club. A similar collection letter was sent in April 2005. The Netherlands said it had received some payment on a non-ODA loan following legal action. The IMF reported that China had recently extended a 1.3 billion dollar loan to Zimbabwe for a coal mine and power plants, collateralized by chrome exports. The World Bank said that loan and a similar 50 million dollar loan extended by a European private bank and collateralized by nickel exports may violate the Bank's "negative pledge" clause and prevent further lending.

Paris Club Data Calls

¶23. (U) In response to complaints from export credit agencies that the data call process is too complicated, the secretariat agreed to convene a technical meeting on the margins of the September 2006 Paris Club session to try to find ways to simplify the process.

